GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:5578
ANSWERED ON:07.04.2017
Taxation on Withdrawal from NPS
Patil Shri A.T. (Nana)

Will the Minister of FINANCE be pleased to state:

(a) Whether the withdrawals from the National Pension System (NPS) is taxed to the extent of 60 per cent and if so, the details thereof; and

(b) The steps taken by the Government to bring in parity in the treatment of withdrawals from NPS vis-Ã -vis Provident Fund as positioned by the Government as an alternative to each other?'

Answer

A N S W E R

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI SANTOSH KUMAR GANGWAR)

(a): Yes Madam. This provision has been introduced into the Income Tax Act, 1961 ('Act') vide Finance Act, 2016 by inserting clause (12A) in Section 10 of the Act.

(b): Prior to Finance Act, 2016, National Pension System (NPS), referred to in section 80CCD, was under Exempt, Exempt and Tax (EET) regime i.e., the monthly/periodic contributions during the pension accumulation phase were allowed as deduction from income for tax purposes; the returns generated on these contributions during the accumulationphase were also exempt from tax but the terminal benefits on exit or superannuation, in the form of lump sum withdrawals, were taxable in the hands of the individual subscribed or his nominee in the year of receipt of such amounts unlike PPF and EPF which have been enjoying EEE regime i.e. Exempt, Exempt, Exempt.

In order to rationalize the taxability of receipts from pension plans, vide Finance Act, 2016, section 10 of the Act was amended to provide that any payment from National Pension System Trust to an employee on account of closure or his opting out of the NPS shall also be exempt from tax, to the extent it does not exceed forty percent of the total amount payable to him at the time of closure or his opting out of the scheme.Further, Finance Act, 2017 has amended section 10 of the Income-tax Act to exempt partial withdrawals by employees (to the extent of 25% of the employee's contribution) from their NPS accounts in accordance with the guidelines prescribed under Pension Fund Regulatory and Development Authority Act, 2013.

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